

PX5

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Traditional IRA vs. Roth IRA: Which is right for you?

When saving for retirement, many people turn to individual retirement accounts, or IRAs. The two types of IRAs are traditional and Roth. The main difference between a traditional IRA and Roth IRA has to do with how your money is taxed.

So how do you choose between them? You can begin by learning more about each so you can decide which one will help you meet your financial goals.

What is an IRA?

An IRA is a retirement vehicle created by the federal government to encourage individuals to save. The money contributed to them can grow tax deferred. This can be a powerful advantage to you. Because if you don't pay taxes on this growth while it's in the IRA, your money may compound faster than it would if it were taxed immediately. In addition:

- A **traditional IRA** has the potential for you to make tax-deductible contributions to your retirement, and the earnings are taxable only when you make a withdrawal.
- **Roth IRA** contributions are not tax-deductible, meaning that you're contributing money you've already paid taxes on. But you are allowed to make "qualified withdrawals" of earnings that are tax- and penalty-free.

The following chart gives you more details on each type.

Comparing Traditional IRA and Roth IRA

	Traditional IRA	Roth IRA
Who is eligible?	Anyone who has earned income.	Anyone who has earned income, but the contribution amount is based on and their Modified Adjusted Gross Income (MAGI). For single filers, that would include anyone with MAGI under \$129,000 for the 2022 tax year and under \$138,000 for 2023. Contributions would be reduced on a sliding scale between \$129,000 and \$144,000 for 2022 and between \$138,000 and \$153,000 for 2023. Married couples filing jointly must have MAGI between \$204,000 and \$214,000 for 2022 and between \$218,000 and \$228,000 in 2023 to qualify for a Roth IRA, with contributions reduced on a sliding scale.
What is the maximum amount that can be contributed each year?	\$6,000; \$7,000 if over age 50 (for 2022), and \$6,500 or \$7,500 if 50 or over in 2023.	\$6,000; \$7,000 if over age 50 (for 2022), and \$6,500 or \$7,500 if 50 or over in 2023.
What are the tax advantages?	You may be able to deduct your contributions from income taxes. And any growth in the account is not taxable until you withdraw it.	Any growth in the account is not taxable until you withdraw it—and may even be tax-free if certain conditions are met.
Is the contribution deductible from taxes?	Yes, unless you or your spouse participate in an employer-sponsored retirement plan and your MAGI exceeds certain dollar amounts (see IRS contributions and deduction limits).	No.
What happens when I make withdrawals?	Withdrawals made before age 59½ may be subject to a 10% federal tax penalty unless certain conditions exist, in addition to ordinary income taxes.	Contributions are withdrawn first without tax or penalty. Withdrawals of earnings are income tax- and penalty-free if the IRA has been held for at least five years and you are at least age 59½, disabled, first time home purchase (\$10,000) or paid to your beneficiary.
Am I required to take distributions?	Yes, you must begin taking distributions once you turn age 72.	No distributions are required for you, but your beneficiary will be subject to distribution requirements.

Best of both worlds

Can't choose? You can actually contribute to both types of IRAs if you want to take advantage of the unique benefits each account offers. The annual contribution limit can be split between your IRAs. And if you currently have a traditional IRA and decide a Roth IRA would be a better fit, you can always [convert your traditional IRA account into a Roth](#).

Is an IRA a mutual fund?

The short answer is that "no," an IRA is not a mutual fund. The biggest difference between an IRA and a mutual fund is that an IRA is a type of account that can be funded *with* an investment like a mutual fund, an annuity, or any number of other investment vehicles.

It usually depends on the institution that you're opening the IRA with as to what type of investment it can be funded with. For example, a mutual fund company will usually offer mutual funds to invest your IRA in, an insurance company will offer annuities, a bank will offer CDs, and a brokerage firm may offer stocks and bonds.




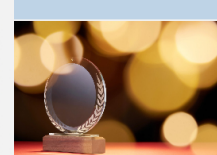
As with any investment decision, deciding which type of vehicle to use to fund your IRA will depend on your objectives, your risk tolerance, and your investing timeline. Just keep in mind: The sooner you start your IRA, the longer your assets can grow to help you meet your retirement goals.

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